



VILLAGE OF PASCOLA, MISSOURI

YEAR ENDED DECEMBER 31, 1998

**From The Office Of State Auditor
Claire McCaskill**

Report No. 99-59
August 24, 1999

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

Some problems were discovered as a result of an audit conducted by our office in response to petitioners from the Village of Pascola, Missouri.

On March 23, 1998, the village purchased the former Pascola Elementary School building and surrounding property for \$11,000. According to board members, the purchase was primarily made to ensure that the owner would not locate a junkyard on the site. The board has not established a plan to utilize the property. The building, in its current condition, creates a significant risk for the village. It is also doubtful that the village has sufficient unrestricted revenues to repair and maintain the property. We recommend the Board of Trustees establish a plan for the use of the school property, ensuring the property is adequately insured against loss, damage, or liability and that revenues are sufficient to repair and maintain the property, or consider getting rid of the property.

The village has not prepared or adopted annual budgets, published semi-annual financial statements, or submitted annual financial reports to the State Auditor's Office for fiscal years 1996 and 1997, as required by state law.

No notices are posted for meetings held during the year. The board only meets when village business needs to be discussed. During the last three years, the minutes indicate the board has met a total of four times. State law requires notices (including tentative agendas) to be posted in a prominent place which is easily accessible to the public, at least twenty-four hours in advance of the meeting.

The board does not sign the minutes to approve them and the minutes do not include a list of bills approved for payment.

In 1998, the village received approximately \$4,700 in motor vehicle-related revenues from the state. The village has not established a separate fund or accounting for these revenues and the related expenditures to ensure these revenues are used only for the purposes allowed by the constitution. Since street-related expenditures are normally less than motor vehicle receipts each year, it is important to establish adequate records to track the unexpended balance.

Village officials have not been elected to office in compliance with state law. The village only holds elections every other year, electing all five members of the Board of Trustees at the same time to the same two-year terms of office. To ensure compliance with state law and to provide for continuity on the board, staggered terms of office should be established and elections of applicable board members should be held each year.

We recommend the village consider appointing separate individuals to the positions of Village Clerk and Village Treasurer. If this is not possible, at a minimum, procedures for an adequate independent review of the record keeping functions should be established.

YELLOW SHEET

VILLAGE OF PASCOLA, MISSOURI

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CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Chairman
and
Board of Trustees
Village of Pascola
Pascola, Missouri 63871

The State Auditor was petitioned under Section 29.230, RSMo, to audit the village of Pascola, Missouri. Our audit of the village included, but was not limited to, the year ended December 31, 1998. The objectives of this audit were to:

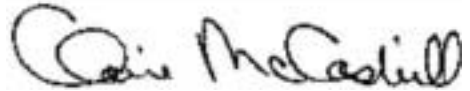
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, village policies and ordinances, and various village financial records.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the village and was not subjected to the auditing procedures applied in the audit of the village.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the village of Pascola, Missouri.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is written in a cursive style with a large initial "C".

Claire McCaskill
State Auditor

April 8, 1999 (fieldwork completion date)

HISTORY AND ORGANIZATION

VILLAGE OF PASCOLA, MISSOURI HISTORY AND ORGANIZATION

The village of Pascola was incorporated in 1893 and is located in Pemiscot County. The population of the village in 1990 was 120.

The village government consists of a five-member board of trustees. The board is elected for two-year terms. The chairman is appointed by the board from the members. The village board of trustees at December 31, 1998, was:

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Actual Compensation for the Year Ended December 31, 1998</u>
Larry Norman, Chairman	April 2000	\$ 0
Cleo Brents, Trustee	April 2000	0
Woodrow Duffy, Trustee	April 2000	0
Tyrone Hendershot, Trustee	April 2000	0
Floyd Foster, Trustee	April 2000	0

Woodrow Duffy has been appointed to serve as Village Clerk and Treasurer. He received no compensation during the year ended December 31, 1998.

A summary of the financial activity of the village of Pascola for the years ended December 31, 1998, 1997, and 1996, is presented on the next page.

	1998	1997	1996
RECEIPTS			
Motor fuel and motor vehicle fees	\$ 4,773	4,632	4,356
Franchise taxes	3,165	1,840	2,283
Interest	1,325	1,282	1,160
Total Receipts	<u>9,263</u>	<u>7,754</u>	<u>7,799</u>
DISBURSEMENTS			
Street lights	1,980	1,944	1,764
Street repair	304	111	0
Street signs	0	750	0
School property	11,042	0	0
Lawn services	400	400	400
Election expenses	194	0	209
Total Disbursements	<u>13,920</u>	<u>3,205</u>	<u>2,373</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	-4,657	4,549	5,426
CASH AND CASH EQUIVALENTS, January 1,	<u>33,242</u>	<u>28,693</u>	<u>23,267</u>
CASH AND CASH EQUIVALENTS, December 31,	\$ <u><u>28,585</u></u>	<u><u>33,242</u></u>	<u><u>28,693</u></u>

MANAGEMENT ADVISORY REPORT

VILLAGE OF PASCOLA, MISSOURI
SUMMARY OF FINDINGS

1. School Property (page 8)

In 1998, the village purchased the former Pascola Elementary School building for \$11,000, but has no specific plans for the property's future use.

2. Budgets, Minutes, Meetings, and Financial Reports (pages 8-10)

The village did not prepare or adopt annual budgets. The board does not sign the minutes to approve them and the minutes do not include a list of bills approved for payment. The village did not submit annual financial reports to the State Auditor's office for years ended December 31, 1997 and 1996 and has not separately accounted for restricted use revenues. Semiannual financial statements are not prepared and published as required by law. The board does not have regular meetings and does not post notices of board meetings.

3. Accounting Controls and Procedures (page 11)

The Village Clerk also serves as the Village Treasurer. The Village Clerk and Board Chairman have check signing authority, but neither party is bonded.

4. Bidding (page 12)

The village did not solicit bids for paving services in 1995 in the amount of approximately \$41,000.

5. Terms of Office (pages 12-13)

The village only holds elections every two years, rather than electing applicable board members each year to staggered two-year terms of office.

VILLAGE OF PASCOLA, MISSOURI
MANAGEMENT ADVISORY REPORT

1.	School Property
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On March 23, 1998, the village purchased the former Pascola Elementary School building and surrounding property for \$11,000. According to board members, the purchase was primarily made to ensure that the owner would not locate a junkyard on the site. The board has not established a plan to utilize the property. The building, in its current condition, creates a significant liability risk for the village. It is also doubtful that the village has sufficient unrestricted revenues to repair and maintain the property.

The school building is in very poor physical condition. Numerous windows are broken or missing and, due to a fire several years ago, the roof and part of the exterior wall on one section of the building are gone. The condition of the building makes repairs expensive and creates a public hazard and potential liability for which the village is not insured. In addition, franchise tax receipts and related interest earnings are the only unrestricted revenue source the village has to spend on the property. Based on average annual franchise tax receipts totaling approximately \$2,300, it took the village approximately five years to accumulate enough unrestricted franchise tax monies just to purchase the property. At December 31, 1998 the village had only \$28,585 in its bank account and certificates of deposit, some of which is restricted by law for use only on street-related purposes. To ensure village assets are effectively utilized and related liabilities are minimized, the board needs to develop a plan for the use of the property.

WE RECOMMEND the Board of Trustees establish a plan for the use of the school property, ensuring the property is adequately insured against loss, damage, or liability and that revenues are sufficient to repair and maintain the property, or consider disposing of the property.

AUDITEE'S RESPONSE

The mayor has been reviewing the possibility of having someone demolish the building and will discuss it with the board.

2.	Budgets, Minutes, Meetings, and Financial Reports
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- A. The village does not prepare or adopt annual budgets. Section 67.010, RSMo 1994, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing budget year. Section 67.080, RSMo 1994, provides that no expenditure of public monies shall be made unless it is authorized in the budget.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of the village operations and provide a means to effectively monitor actual costs and revenues. It will also assist in informing the public about the village's operations and current finances.

- B. The board of trustees meets on an as-needed basis to do the business of the village. We noted the following concerns with the minutes maintained for those meetings.
- 1) The board minutes are prepared and signed by the Village Clerk, but the minutes are not signed by the chairman or any other board trustees. The board minutes should be signed by the chairman or a designated board member to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.
 - 2) The board of trustees does not document its approval of bills. The village writes approximately sixteen checks per year for monthly street light costs, mowing, elections, and miscellaneous expenses. According to the chairman, the board has given verbal approval to the Village Clerk to pay routine bills such as the street light bill and the yearly mowing fee. The board has not documented its standing approval of routine bills. The board also has no documentation of approving other non-routine bills including election costs. The board should include a list of approved bills in the board's minutes. By signing the minutes, the board would also document its approval of the list of bills for payment.
- C. The village did not submit annual financial reports for the years ended December 31, 1997, and 1996, to the State Auditor's office pursuant to Section 105.145, RSMo 1994. The village should take care to ensure the annual reports required by state law are submitted to the State Auditor's office.
- D. During the year ended December 31, 1998, the village received approximately \$4,700 in motor vehicle-related revenues from the state. Article IV, Section 30 of the Missouri Constitution, requires that motor vehicle-related revenues apportioned by the state of Missouri be expended for street-related purposes, including policing, signing, lighting, and cleaning of roads and streets. The village has not established a separate accounting for these revenues and the related expenditures to ensure compliance with the constitutional obligation.

To ensure compliance with the Missouri Constitution, the village should establish a separate fund or accounting of motor vehicle-related revenues and ensure these revenues are used only for the purposes allowed by the constitution. Since street-related expenditures are normally less than motor vehicle receipts each year, it is important to establish adequate records to track the unexpended balance.

- E. Semiannual financial statements are not prepared and published or posted as required by law. Section 80.210, RSMo 1994, provides that the board of trustees in March and September, is to prepare and publish semiannual financial statements in a local newspaper or to post semiannual financial statements in six public places within the village.
- F. The board does not have a regular monthly meeting. The board only meets when village business needs to be discussed. During the past three years, the minutes indicate the board has met a total of four times. No notices are posted for meetings held during the year. Section 610.020, RSMo, 1994 requires notices (including tentative agendas) to be posted in a prominent place which is easily accessible to the public, to be given at least twenty-four hours in advance, or if not feasible, reasons are to be documented in the board minutes. In addition, more frequent regular meetings would allow the public a forum for addressing concerns and questions to the board.

WE RECOMMEND the Board of Trustees:

- A. Prepare and adopt annual budgets as required by state law.
- B. Document its review and approval of the board minutes and list of bills by signing, or designating a board member to sign, the official copy of the minutes which includes the list of bills maintained by the Village Clerk.
- C. Ensure that annual financial reports are filed with the State Auditor's office.
- D. Establish the necessary funds to account for motor vehicle-related revenues restricted for street related purposes.
- E. Ensure semiannual financial statements are published or posted in accordance with state law.
- F. Ensure notices of the board meetings are posted in accordance with state law. In addition, the board should consider holding more frequent, regularly scheduled meetings to allow for public participation.

AUDITEE'S RESPONSE

- A. *We agree and will try to prepare a budget for next year.*
- B-F. *We agree.*

3. Accounting Controls and Procedures
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- A. The village has one person that serves as the Village Clerk and Treasurer. The duties of this official include maintaining receipt and disbursement records, making bank deposits, preparing and signing checks, receiving bank statements, and preparing financial reports.

Neither the board nor other personnel independent of the cash custody and the record-keeping functions provide adequate supervision or review of the work performed by the Village Clerk.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these three offices, by the same person at the same time would be incompatible. The statutes pertaining to villages are similar to those cited in this opinion and, thus, the opinion's conclusion appears applicable to villages.

Holding two of these offices does not allow the separation of duties necessary for a proper evaluation and review of financial transactions. The current procedures jeopardize the system of independent checks and balances intended by state law.

- B. The Village Clerk and Board Chairman are authorized to sign checks. However, the village does not have bond coverage for them. Section 80.250, RSMo 1994, requires the Village Clerk to be bonded in a sum not less than one thousand dollars. Failure to properly bond all persons with access to assets exposes the village to risk of loss. Currently, dual signatures on checks are not required. Requiring two signatures on all checks would also provide additional controls over the use of the funds.

WE RECOMMEND the Board of Trustees:

- A. Provide for an adequate segregation of duties. If this is not possible, at a minimum, procedures for adequate independent review of accounting records should be established.
- B. Obtain adequate bond coverage for all persons handling village monies and require two signatures on all checks.

AUDITEE'S RESPONSE

We agree.

4.

Bidding

The village usually expends monies each year on small, routine items such as street lights, elections, mowing services, street signs, and minor street repair. However, the village paid approximately \$41,000 to a paving company for paving services in 1995 without soliciting competitive bids.

While the village appears to accumulate its monies and only occasionally makes large purchases, competitive bidding for major purchases would help ensure the village receives fair value by contracting with the lowest and best bidders. Competitive bidding would also help ensure all parties are given an equal opportunity to participate in the village's business. Due to the village's small amount of annual receipts, it is important that it ensures it is getting competitive prices on its large purchases.

Bids can be handled by telephone quotation, by written quotation, by sealed bids, or by advertised bids. Various approaches are appropriate, based on the dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the winning bid was selected.

WE RECOMMEND the Board of Trustees ensure future major purchases are competitively bid.

AUDITEE'S RESPONSE

We agree.

5.

Terms of Office

Village officials have not been elected to office in compliance with state law. The village only holds elections every other year, electing all five members of the Board of Trustees at the same time to the same two-year terms of office. Section 80.040, RSMo 1994, requires board members to be elected to staggered two-year terms, with two members being elected in one year and the other three being elected the next.

To ensure compliance with state law and to provide for continuity on the board, staggered terms of office should be established and elections of applicable board members should be held each year.

WE RECOMMEND the Board of Trustees establish staggered terms of office and ensure elections are held each year for applicable board members.

AUDITEE'S RESPONSE

We will take this recommendation under advisement.

This report is intended for the information of the management of the village of Pascola and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.